

The UK has one of the most persistently volatile housing markets. We must avoid reckless lending and ensure an adequate supply of housing

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*Reckless mortgage lending drove up house prices in the UK, leading to an asset bubble that eventually burst. **Nicola Hughes** argues that we need a more stable and sustainable mortgage market, as well as an increase in the number of homes.*



House price rise shock! House prices plummet! Boom and bust! Housing market bounces back! Housing market on its knees! It's true that the tabloid obsession with house prices can be a little contradictory and a little dramatic, but it does hint at an underlying truth: the UK has one of the most **persistently volatile** housing markets of advanced economies. Our housing market is of central importance to the wider economy; a huge proportion of our GDP is wrapped up in mortgage debt.

Why is the housing market so up and down – and what are the consequences? Shelter has tried to explain one aspect, mortgage credit, in our [new animated video](#).

What the video shows is that bigger, riskier mortgages can push up the cost of housing, without necessarily benefiting first time buyers. The contraction of the mortgage market since the financial crisis has been well documented and there's now a serious debate to be had about whether we're entering into the 'new normal', as David Miles [suggests](#).

Critics of mortgage market reform may argue that current market sluggishness means that now is no time to be regulating further. But surely the job of the regulator is to future proof markets and to work towards more stability over the long term. Studies repeatedly show that countries with poorly regulated credit markets are **more vulnerable** to market volatility.

Is market volatility such a bad thing? After all there are winners in a house price bubble – buyers get a rapidly appreciating, largely untaxed capital asset, which can give them and their families a better life. Lenders have what looks like a solid security against which to do business. And perhaps the bursting of a bubble, while painful (see the early 90s) is just a normal market correction that we must learn to live with.

I'd posit three problems with the boom and bust approach: inequality of opportunity and outcomes, unsustainability, and wider economic impacts. The truth is that the housing market doesn't benefit everyone equally. While one homeowner enjoys their asset growth, another can't get into the market at all and is stuck in substandard housing. Another over-stretches on risky credit to get in and ends up badly in debt, another finds themselves caught short when the bubble bursts, leaving them in negative equity.

The other problem with bubbles is that they are illusory and they cannot be sustained indefinitely. The housing market boom gave people a sense of prosperity and security which was quickly called into question after the events of 2008. Inflation in the price of any good can only get so far before it collapses around us. Finally, housing boom and bust has a bigger economic impact, be it on consumer spending habits, effects on the public purse, over-investment into one asset class leading to a lack of investment in others, or negative impacts on labour mobility.

Mortgage credit is just one part of this picture; undoubtedly the chronic under-supply of houses has

played a huge part in pushing up prices and Shelter will continue to campaign for more homes. But we also think that to protect consumers and to better safeguard the economy we need a more stable, sustainable mortgage market.

Shelter's new video on how reckless lending drove up house prices is [available here](#).

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Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

About the author

Nicola Hughes is a Senior Policy Officer at Shelter, the national charity for housing and homelessness. Nicola joined Shelter in 2008, and leads Shelter's policy and campaigning work on homeownership, including mortgage regulation, housing debt, arrears and repossessions. She also works on intermediate tenure, empty and second homes, property taxation and older people. Prior to joining Shelter, Nicola worked in a variety of roles in both central and local government, including Acas and DWP, and at the think-tank Demos.

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